

Message Text

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ACTION EUR-12

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AMEMBASSY BERN

C O N F I D E N T I A L EC BRUSSELS 10022

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: THE EUROPEAN MONETARY SNAKE-SWISS ASSOCIATION; INTERVENTION
IN DOLLARS

REF: A. BERN 4502

B. EC BRUSSELS 9485

1. BEGIN SUMMARY: THE EC SNAKE FINANCE MINISTERS HAVE DECIDED TO CANCEL

THEIR MEETING SCHEDULED FOR NOVEMBER 17 TO DISCUSS SWISS ASSOCIATION
WITH

THE EUROPEAN MONETARY SNAKE. FRANCE CONTINUES TO SEEK TERMS WHICH ARE

NOT ACCEPTABLE TO THE SWISS. AN EC CENTRAL BANK COMMITTEE IS LOOKING
INTO SNAKE POLICIES REGARDING INTERVENTION IN THE EXCHANGE MARKETS
PRIMARILY IN DOLLARS. END SUMMARY.

2. THE EC FINANCE MINISTERS WHO ARE MEMBERS OF THE SNAKE CANCELLED
THEIR MEETING SCHEDULED FOR THE MORNING OF NOVEMBER 17 FOR THE
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PUBLICLY-STATED REASON THAT THE FRG AND FRENCH MINISTERS WILL BE

TIED UP AT THE ECONOMIC SUMMIT. OUR SOURCES SAY, HOWEVER, THAT THE MAIN REASON FOR THE CANCELLATION IS THE CONTINUED IMPASSE OVER SWISS ASSOCIATION WITH THE SNAKE. THE SNAKE MINISTERS WANT TO AVOID THE EMBARRASSEMENT OF HAVING ANOTHER MEETING TO WHICH THE SWISS WERE TO BE INVITED AND FAILING TO AGREE ON THE SWISS TERMS OF ENTRY AFTER THEY HAD ALREADY AGREED IN PRINCIPLE TO SWISS ASSOCIATION IN SEPTEMBER. THE FRG AND FRENCH MINISTERS WILL BE IN BRUSSELS ON THE 17TH TO ATTEND THE AFTERNOON MEETING OF THE EC FINANCE COUNCIL AND WILL STAY ON TO PARTICIPATE IN THE TRIPARTITE CONFERENCE OF SOCIAL PARTNERS ON THE 18TH. THUS, WITH SOME REARRANGEMENT IN SCHEDULES, A SNAKE MEETING PROBABLY COULD BE HELD, IF THE MINISTERS WANTED TO DO SO.

3. SWISS MISSION SOURCES CONFIRM REPORTS THAT FRANCE CONTINUES TO INSIST THAT THE GOS PLACE CONTROLS ON THE CAPITAL MOVEMENTS OF ITS RESIDENTS BEFORE SWITZERLAND MAY BECOME ASSOCIATED WITH THE SNAKE. THE SWISS HAVE DISCUSSED THE DECISION TO CANCEL THE MEETING WITH THE BELGIANS, WHO ARE THE CHAIRMAN OF THE SNAKE MEETING, BUT THEY REPORTEDLY DID NOT REQUEST THE CANCELLATION. NOVERTHELESS, THE SWISS ARE RELIEVED, BECAUSE THEY DID NOT WANT TO GO THROUGH ANOTHER MINISTERIAL-LEVEL DISCUSSION OF ENTRY TERMS WITHOUT REACHING A DECISION. SUCH A SITUATION MIGHT INCREASE SPECULATION AGAINST THE SWISS FRANC.

4. SWISS OFFICIALS ALSO SAY THAT THE GOS HAS NOT DISCUSSED BILATERALLY THIS ISSUE WITH FRENCH OFFICIALS, BUT THEY BELIEVE THE GOF IS AWARE THAT ITS REQUEST IS UNACCEPTABLE TO THE SWISS. THEY ADD THAT FRENCH OBSTRUCTIONISM MAKE FRANCO-SWISS RELATIONS "DIFFICULT." NEVERTHELESS, THE GOS WILL CONTINUE TO SEEK ASSOCIATION WITH THE SNAKE, PRIMARILY IN ORDER TO HELP STABILIZE THE SF EXCHANGE RATE AGAINST SNAKE CURRENCIES AND HELP REDUCE FLUCTUATIONS AGAINST OTHER CURRENCIES. THE NEXT POSSIBLE DATE FOR A MEETING OF SNAKE FINANCE MINISTERS IS DECEMBER 15, WHEN THE EC FINANCE COUNCIL IS SCHEDULED TO MEET.

5. IN A RELATED DEVELOPMENT, THE HEYVAERT WORKING GROUP OF THE EC CENTRAL BANK GOVERNORS COMMITTEE HAS TAKEN UP SNAKE MEMBERS' POLICIES REGARDING INTERVENTION IN EXCHANGE MARKETS. SINCE JULY 1975 SNAKE MEMBERS HAVE BEEN INTERVENING SOLELY

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IN DOLLARS, WHEREAS PREVIOUSLY ABOUT HALF OF THEIR INTERVENTIONS WERE IN PARTICIPANTS' CURRENCIES. THESE DOLLAR INTERVENTIONS ARE PRIMARILY AN OUTGROWTH OF THE EC'S DECISION TO SMOOTH OUT THE DAILY FLUCTUATIONS OF THEIR EXCHANGE RATES AGAINST THE DOLLAR. AS A RESULT OF THESE DOLLAR INTERVENTIONS, SNAKE CURRENCIES HAVE GENERALLY NOT REACHED THE LIMITS OF THE SNAKE MARGINS AND CONSEQUENTLY THERE HAS BEEN NO NEED TO INTERVENE IN SNAKE CURRENCIES.

6. THE HEYVAERT GROUP WILL ANALYZE THE CONSEQUENCES OF THIS DEVELOPMENT AND WILL REPORT ITS FINDING TO THE CENTRAL BANK GOVERNORS ON DECEMBER 9. IT WILL PRIMARILY LOOK INTO THREE POLICY ISSUES: (1) WHAT ARE THE BENEFITS OF INTERVENING PRIMARILY IN DOLLARS AND HOW DOES THIS AFFECT SNAKE INTERVENTION RULES; (2) WHAT HAS BEEN THE IMPACT ON EXCHANGE MARKETS; AND (3) WHAT ARE THE MEMBER STATES' VIEWS REGARDING MARKET INTERVENTION.

7. OUR SOURCES EXPRESSED SURPRISE THAT THE FRG REPRESENTATIVE TO THE WORKING GROUP HAD GENERALLY SUPPORTED A CONTINUATION OF CONCERTED INTERVENTIONS PRIMARILY IN DOLLARS. THEY THOUGHT THIS REPRESENTED A CHANGE IN POSITION FOR THE FRG. THE DUTCH AND BELGIAN REPRESENTATIVE, HOWEVER, INDICATED A RELUCTANCE TO FORMALIZE INTERVENTIONS PRIMARILY IN DOLLARS AS A POLICY GUIDELINE. MORRIS

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